



CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
(A Component Unit of the State of Delaware)
Dover, Delaware

AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

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INDEPENDENT AUDITOR'S REPORT

TO THE SCHOOL BOARD MEMBERS
CHARTER SCHOOL, INC. D/B/A CAMPUS COMMUNITY SCHOOL
Dover, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charter School, Inc. d/b/a Campus Community School (the School) (a component unit of the State of Delaware) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The School has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on page 19 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts
Office of Auditor of Accounts

August 30, 2006



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

PHONE: (302) 739-4241
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE SCHOOL BOARD MEMBERS
CHARTER SCHOOL, INC. D/B/A CAMPUS COMMUNITY SCHOOL
Dover, Delaware

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charter School, Inc. d/b/a Campus Community School (the School) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-01 and 2005-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relative low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the School in a separate letter dated August 30, 2006.

This report is intended solely for the information and use of the School's management, School Board Members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, and Department of Finance and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts
Office of Auditor of Accounts

August 30, 2006

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2006

| <u>ASSETS</u> | <u>GOVERNMENTAL ACTIVITIES</u> |
|---|------------------------------------|
| CURRENT ASSETS | |
| Cash and Cash Equivalents | |
| Unrestricted | \$ 601,006 |
| Restricted | 116,382 |
| Receivables | |
| Delaware School Districts | 11,299 |
| Governments – Federal through State | 1,359 |
| Current Portion of Bond Issuance Costs | 23,222 |
| TOTAL CURRENT ASSETS | <u>753,268</u> |
| NONCURRENT ASSETS | |
| Capital Assets, Non-depreciable | 150,000 |
| Depreciable Capital Assets, Net | 5,937,104 |
| Bond Issuance Cost, Net of Amortization | 359,950 |
| TOTAL NONCURRENT ASSETS | <u>6,447,054</u> |
| TOTAL ASSETS | <u>7,200,322</u> |
| | |
| <u>LIABILITIES</u> | |
| CURRENT LIABILITIES | |
| Accounts Payable | 85,474 |
| Accrued Salaries and Related Costs | 491,092 |
| Compensated Absences | 48,010 |
| Leases Payable | 11,353 |
| Debt | 150,000 |
| TOTAL CURRENT LIABILITIES | <u>785,929</u> |
| NONCURRENT LIABILITIES | |
| Compensated Absences | 108,077 |
| Lease Payable | 32,267 |
| Debt | 3,824,900 |
| TOTAL NONCURRENT LIABILITIES | <u>3,965,244</u> |
| TOTAL LIABILITIES | <u>4,751,173</u> |
| | |
| <u>NET ASSETS</u> | |
| Invested in Capital Assets, Net of Related Debt | 2,451,756 |
| Restricted for Capital Projects | 8,478 |
| Restricted for Debt Service Payments | 107,904 |
| Unrestricted (Deficit) | <u>(118,989)</u> |
| TOTAL NET ASSETS | <u>\$ 2,449,149</u> |

See accompanying notes to the financial statements.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

| | PROGRAM REVENUES | | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS |
|---|-----------------------|----------------------------|--|--|--|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | |
| GOVERNMENTAL ACTIVITIES | | | | | |
| Instructional Services | \$ (4,212,518) | \$ - | \$ 900,645 | \$ - | \$ (3,311,873) |
| Supporting Services: | | | | | |
| Operation and Maintenance of Facilities | (737,639) | - | - | - | (737,639) |
| Transportation | (150,721) | - | - | - | (150,721) |
| School Lunch Services | (114,999) | 82,235 | 41,566 | - | 8,802 |
| Interest | (189,053) | - | - | - | (189,053) |
| TOTAL CHARTER SCHOOL | <u>\$ (5,404,930)</u> | <u>\$ 82,235</u> | <u>\$ 942,211</u> | <u>\$ -</u> | <u>(4,380,484)</u> |
| GENERAL REVENUES | | | | | |
| Charges to School Districts | | | | | 661,800 |
| State Aid not Restricted to Specific Purposes | | | | | 3,910,168 |
| Earnings on Cash and Cash Equivalents | | | | | 7,373 |
| Miscellaneous Revenues | | | | | 69,397 |
| TOTAL GENERAL REVENUES | | | | | <u>4,648,738</u> |
| CHANGE IN NET ASSETS | | | | | |
| | | | | | 268,254 |
| NET ASSETS AT BEGINNING OF YEAR | | | | | |
| | | | | | <u>2,180,895</u> |
| NET ASSETS AT END OF YEAR | | | | | |
| | | | | | <u>\$ 2,449,149</u> |

See accompanying notes to the financial statements.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2006

| <u>ASSETS</u> | <u>GENERAL FUND</u> | <u>CAPITAL PROJECTS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|--|-------------------------|-----------------------------|---|
| Cash and Cash Equivalents | | | |
| Unrestricted | \$ 601,006 | \$ - | \$ 601,006 |
| Restricted | 107,904 | 8,478 | 116,382 |
| Receivables | | | |
| Delaware School Districts | 11,299 | - | 11,299 |
| Governments – Federal through State | 1,359 | - | 1,359 |
| TOTAL ASSETS | <u>\$ 721,568</u> | <u>\$ 8,478</u> | <u>\$ 730,046</u> |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | \$ 85,474 | \$ - | \$ 85,474 |
| Accrued Salaries and Related Costs | 491,092 | - | 491,092 |
| Compensated Absences | 26,230 | - | 26,230 |
| TOTAL LIABILITIES | <u>602,796</u> | <u>-</u> | <u>602,796</u> |
| <u>FUND BALANCES</u> | | | |
| Restricted for Debt Service Payments | 107,904 | | 107,904 |
| Reserved for Encumbrances | 1,041 | - | 1,041 |
| Unreserved | | | |
| General Fund | 9,827 | - | 9,827 |
| Capital Projects Fund | - | 8,478 | 8,478 |
| TOTAL FUND BALANCES | <u>118,772</u> | <u>8,478</u> | <u>127,250</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 721,568</u> | <u>\$ 8,478</u> | <u>\$ 730,046</u> |

See accompanying notes to the financial statements.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

| | |
|--|---------------------|
| Total Fund Balances – Governmental Funds | \$ 127,250 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$6,726,124 and the related accumulated depreciation is \$639,020. | 6,087,104 |
| Loan closing costs are not available to pay for current period expenditures and therefore, are deferred in the funds. | 383,172 |
| Long-term debt liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. | (3,974,900) |
| Long-term capital lease liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. | (43,620) |
| Long-term and current compensated absences liabilities that are not due and payable in the current period are not reported as liabilities in the funds. | (129,857) |
| TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES | \$ <u>2,449,149</u> |

See accompanying notes to the financial statements.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

| | GENERAL FUND | CAPITAL PROJECTS | TOTAL GOVERNMENTAL FUNDS |
|---|-------------------|---------------------|--------------------------------|
| REVENUES | | | |
| State Support | \$ 3,910,168 | \$ - | \$ 3,910,168 |
| Federal Support | 167,646 | - | 167,646 |
| Charges to School Districts | 661,801 | - | 661,801 |
| School Lunch Services – Charges for Services | 82,235 | - | 82,235 |
| School Lunch Services - Grants | 41,566 | - | 41,566 |
| Local Fundraising | 90,949 | - | 90,949 |
| Earnings on Cash and Cash Equivalents | 7,373 | - | 7,373 |
| Miscellaneous Revenues | 69,397 | - | 69,397 |
| Other Local Sources | 355,700 | - | 355,700 |
| Contributions – In-kind | 286,350 | - | 286,350 |
| TOTAL REVENUES | <u>5,673,185</u> | <u>-</u> | <u>5,673,185</u> |
| EXPENDITURES | | | |
| Current | | | |
| Instructional Services | 3,904,461 | - | 3,904,461 |
| Supporting Services: | | | |
| Operation and Maintenance of Facilities | 665,904 | - | 665,904 |
| Transportation | 150,721 | - | 150,721 |
| School Lunch Services | 114,999 | - | 114,999 |
| Capital Outlay | | | |
| Land, Buildings, and Improvements | - | - | - |
| Debt Service | | | |
| Principal | 419,954 | - | 419,954 |
| Interest and Other Charges | 237,566 | - | 237,566 |
| TOTAL EXPENDITURES | <u>5,493,605</u> | <u>-</u> | <u>5,493,605</u> |
| NET CHANGE IN FUND BALANCES | <u>179,580</u> | <u>-</u> | <u>179,580</u> |
| FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR | <u>(60,808)</u> | <u>8,478</u> | <u>(52,330)</u> |
| FUND BALANCES AT END OF YEAR | <u>\$ 118,772</u> | <u>\$ 8,478</u> | <u>\$ 127,250</u> |

See accompanying notes to the financial statements.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Net Change in Fund Balances – Total Governmental Funds \$ 179,579

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 or land improvements with an initial cost of more than \$10,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | |
|----------------------|-----------|
| Capital Outlays | - |
| Depreciation Expense | (178,200) |

Governmental funds report loan closing costs as expenditures. However, in the statement of activities, loan closing costs are capitalized and the cost is allocated over the life of the loan and reported as amortization expense.

| | |
|----------------------|----------|
| Amortization Expense | (23,222) |
|----------------------|----------|

Governmental funds report repayments of capital lease liabilities as debt expenditures. However, in the statement of net assets, the repayment reduces long-term leases payable.

9,854

Governmental funds report repayments of long-term debt as expenditures, but the repayments reduce long-term liabilities in the statement of net assets.

410,100

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

| | |
|----------------------|------------------|
| Compensated Absences | <u>(129,857)</u> |
|----------------------|------------------|

| | | |
|--|----|----------------|
| CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES | \$ | <u>268,254</u> |
|--|----|----------------|

See accompanying notes to the financial statements.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
STATEMENT OF FIDUCIARY NET ASSETS – AGENCY FUND
JUNE 30, 2006

| | STUDENT ACTIVITIES FUND |
|---------------------------|-------------------------------|
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | <u>\$ 14,840</u> |
| <u>LIABILITIES</u> | |
| Due to Student Groups | <u>\$ 14,840</u> |

See accompanying notes to the financial statements.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Charter School, Inc. d/b/a Campus Community School (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

Reporting Entity

The School, which opened in September 1998, was established to provide a unique learning environment to students. The School is considered to be a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the School.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to students who purchase, use, or directly benefit from goods and services provided and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The School reports the following major governmental funds:

- The General Fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- The Capital Projects Fund accounts for major construction projects.

Additionally, the School reports the following fund type:

- The Agency Fund (fiduciary fund) accounts for assets held on behalf of student and parent groups.

Cash And Cash Equivalents

Except for the restricted cash equivalents and cafeteria, fundraising, and student activity cash accounts, cash and cash equivalents of the School are controlled by the State Treasurer's Office in Dover, Delaware. The cafeteria, fundraising, and student activity cash accounts are controlled by the School.

Capital Assets

Capital assets are reported in the government-wide financial statements. The School defines capital assets as assets with an initial individual cost of more than \$5,000 or land improvements with a cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings and improvements are depreciated over forty years using the straight-line method.

Compensated Absences

Vacation and sick pay plus related payroll taxes are accrued when earned in the government-wide financial statements. The liability for the payout of vacation and sick pay benefits due and payable at June 30, 2006 is reported in the governmental fund.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Vacation

Twelve-month employees can accumulate up to 42 days of vacation. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay. Vacation leave allowances for twelve-month employees are as follows: 10 days for employees with 0-5 years of service; 15 days for employees with 6-15 years of service; 20 days for employees with over 15 years of service.

Sick Leave

Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is paid when employees qualify and apply for State pension and is paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Restricted cash of \$116,382 at June 30, 2006 represents amounts reserved for debt service expenditures and capital projects.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND CASH EQUIVALENTS

At June 30, 2006, the School has cash and cash equivalents balance of \$717,388. Of that amount, \$569,001 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE B - CASH AND CASH EQUIVALENTS - CONTINUED

The school activity, fundraising, and cafeteria accounts are in the custody of School officials. The book and bank balances of these funds were \$32,005 and \$35,218, respectively. The bank balance of cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and, therefore, there is no custodial credit risk for these cash deposits.

Wachovia Trust Company held \$8,478 (book and bank balance) at June 30, 2006 of unspent bond proceeds in money market accounts. These funds are subject to custodial risk because they are not collateralized.

Restricted cash equivalents of \$107,904 at June 30, 2006 represent a money market line of credit with Wachovia used for debt service.

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 follows:

| | <u>BEGINNING BALANCES</u> | <u>INCREASES</u> | <u>DECREASES</u> | <u>ENDING BALANCES</u> |
|--|-------------------------------|------------------|------------------|----------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 150,000 | \$ - | \$ - | \$ 150,000 |
| Capital Assets Being Depreciated: | | | | |
| Buildings and Improvements | 6,576,124 | - | - | 6,576,124 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (460,820) | (178,200) | - | (639,020) |
| Total Capital Assets Being Depreciated, Net | 6,115,304 | (178,200) | - | 5,937,104 |
| Capital Assets, Net | \$ 6,265,304 | \$ (178,200) | \$ - | \$ 6,087,104 |

Depreciation expense is \$178,200 for the year ended June 30, 2006 and is included in instructional services in the statement of activities. Depreciation expense included \$12,000 of depreciation on leased assets.

NOTE D - LEASING ARRANGEMENTS

The School has leased photocopier equipment under a capital lease with Canon Financial Services. The cost of the equipment at time of lease was \$60,000. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. Monthly payments including principal and interest are approximately \$1,400. Interest expense for the year ended June 30, 2006 was approximately \$7,000.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE D - LEASING ARRANGEMENTS - CONTINUED

The future minimum lease obligations are as follows:

| YEAR ENDING JUNE 30, | PRINCIPAL | INTEREST | TOTAL |
|-------------------------|------------------|------------------|------------------|
| 2007 | \$ 11,353 | \$ 5,493 | \$ 16,846 |
| 2008 | 13,081 | 3,765 | 16,846 |
| 2009 | 15,072 | 1,775 | 16,847 |
| 2010 | 4,114 | 98 | 4,212 |
| TOTAL | <u>\$ 43,620</u> | <u>\$ 11,131</u> | <u>\$ 54,751</u> |

NOTE E - PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 15.02% for fiscal 2006 of the State's share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3% of salary in excess of \$6,000 per share up to social security maximum and 3% for any salary above social security maximum. Total pension cost of \$313,161 (State share), \$35,412 (local share), and \$8,993 (federal share) is included in the financial statements. Pension costs accrued at June 30, 2006 were approximately \$59,000.

Certain significant plan provisions follow:

- Early Retirement:
 - a. 15 Years Service - Age 55
 - b. 25 Years Service - Any Age
- Service Retirement:
 - a. 15 Years Service - Age 60
 - b. 30 Years Service - Any Age
 - c. 5 Years Service - Age 62
- Disability Retirement:
 - a. 5 Years Service and Proof of Disability
- Vested Pension:
 - a. An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or calling 1-800-722-7300, or visiting their website at www.delawarepensions.com/information/financials.shtml.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE F - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

NOTE G - RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE H - DONATED SPACE AND SERVICES

The School leases space from Wesley College at a yearly rate of \$1, which is substantially less than market value. Wesley College also pays for the costs of utilities, repairs, and maintenance for the building. For fiscal year 2006, the estimated fair market value of the donated space was \$286,350.

NOTE I - LONG-TERM DEBT

Kent County, Delaware issued \$4,385,000 Variable Rate Demand/Fixed Rate Revenue Bonds Series of 2002 for the benefit of the School. The School used the proceeds of the bonds to finance or refinance all or a portion of the costs of renovating existing buildings located at 310-334 and 346-350 Pear Street, Dover, Delaware into classrooms, other academic areas, a gymnasium, a lunchroom, and other accessory school uses, and pay a portion of the costs and expenses of issuing the bonds. The bonds were issued pursuant to a Trust Indenture dated November 1, 2002 between Kent County and Wachovia Trust Company, N.A., as trustee. Kent County has loaned the proceeds of the bonds to the School.

In order to facilitate the issuance and sale of the bonds, Wachovia Bank, National Association issued its irrevocable letter of credit to the trustee for the account of the School authorizing the trustee to make draws on the bank up to an aggregate of \$4,451,316.

The bond proceeds are to be repaid over twenty years with final payment due and optional redemption of the bonds through 2022. Interest is capped at 4.48%. The bonds are secured by real estate and buildings and improvements on Pear Street in Dover, Delaware. The loan documents require the School to maintain certain financial ratios.

During fiscal year 2006, \$410,100 of the bonds were called for optional redemption. Redemption of \$150,000 of the bonds is scheduled of fiscal year 2007.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE I - LONG-TERM DEBT - CONTINUED

Debt service activity for the year ended June 30, 2006 follows:

| | BEGINNING BALANCE | ADDITIONS | REDUCTIONS | ENDING BALANCE |
|----------------|----------------------|-----------|--------------|-------------------|
| Long-term Debt | \$ 4,385,000 | \$ - | \$ (410,100) | \$ 3,974,900 |

NOTE J - RECLASSIFICATION

Due to a review of the debt agreement, certain amounts have been reclassified from the June 30, 2005 to June 30, 2006 financial statements for financial statement presentation:

| LINE ITEM | BALANCE PER JUNE 30, 2005 STATEMENTS | JULY 1, 2005 BALANCE (AS RECLASSIFIED) |
|---|--|--|
| Fund Balance, General Fund | \$ (389,150) | \$ (60,807) |
| Cash and Cash Equivalents, Restricted | \$ - | \$ 328,343 |
| Invested in Capital Assets, Net of Related Debt | \$ 2,561,567 | \$ 2,233,224 |
| Debt | \$ 4,056,657 | \$ 4,385,000 |

NOTE K - SUBSEQUENT EVENT

The School Administrator and Deputy School Administrator resigned effective July 2006. The liability for the payout of termination benefits of \$26,230 has been recorded in the governmental fund financial statements as the current portion of Compensated Absences.

REQUIRED SUPPLEMENTAL INFORMATION

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2006

| | BUDGETED AMOUNTS | | ACTUAL AMOUNTS BUDGETARY BASIS | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|---------------------------------------|------------------|------------------|---|--|
| | ORIGINAL | FINAL | | |
| REVENUES | | | | |
| State Support | \$ 3,776,667 | \$ 3,776,667 | \$ 3,910,168 | \$ 133,501 |
| Federal Support | 293,260 | 293,260 | 167,646 | (125,614) |
| Charges to School Districts | 686,259 | 686,259 | 653,211 | (33,048) |
| Earnings on Cash and Cash Equivalents | 1,000 | 1,000 | 6,317 | 5,317 |
| Miscellaneous Revenues | 30,226 | 30,226 | 90,649 | 60,423 |
| Other Local Sources | - | - | 355,700 | 355,700 |
| School Lunch Services | - | - | 124,021 | 124,021 |
| Local Fundraising | 84,226 | 84,226 | 90,949 | 6,723 |
| TOTAL REVENUES | <u>4,871,638</u> | <u>4,871,638</u> | <u>5,398,661</u> | <u>527,023</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Communications | 12,500 | 12,500 | 11,450 | 1,050 |
| Computer/Word Processing/Software | 15,275 | 15,275 | 1,257 | 14,018 |
| Contracted Services | 142,870 | 142,870 | 140,496 | 2,374 |
| Contractual Food Expense | - | - | 128,713 | (128,713) |
| Employment Costs | 1,039,631 | 1,039,631 | 1,034,911 | 4,720 |
| Insurance | 20,488 | 20,488 | 20,995 | (507) |
| Miscellaneous | 116,100 | 116,100 | 138,235 | (22,135) |
| Other Contractual Services | 132,500 | 132,500 | 133,848 | (1,348) |
| Public Utility Services | 68,000 | 68,000 | 65,523 | 2,477 |
| Repairs and Maintenance | 21,505 | 21,505 | 6,359 | 15,146 |
| Salaries | 2,596,363 | 2,596,363 | 2,583,395 | 12,968 |
| Supplies and Materials | 127,290 | 127,290 | 152,365 | (25,075) |
| Transportation – Buses | 156,000 | 156,000 | 150,721 | 5,279 |
| Travel | - | - | 3,196 | (3,196) |
| Tuition Subsidies | 21,000 | 21,000 | 12,158 | 8,842 |
| Capital Outlay: | | | | |
| Buildings and Equipment | 6,550 | 6,550 | 4,360 | 2,190 |
| Debt Service: | | | | |
| Principal, Interest, Fees | 328,200 | 328,200 | 639,617 | (311,417) |
| TOTAL EXPENDITURES | <u>4,804,272</u> | <u>4,804,272</u> | <u>5,227,599</u> | <u>(423,327)</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>\$ 67,366</u> | <u>\$ 67,366</u> | <u>\$ 171,062</u> | <u>\$ 103,696</u> |
| Fund Balance at Beginning of Year | | | <u>546,326</u> | |
| Fund Balance at End of Year | | | <u>\$ 717,388</u> | |

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2006

The School's budget is prepared on the cash basis of accounting. The amount reported as "net change in fund balance" on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the "net change in fund balance" reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds on page 9.

That statement is prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The following reconciles the net change in fund balance per the budgetary basis to the net change in fund balance per the modified accrual basis.

| | | |
|--|----|----------------|
| NET CHANGE IN FUND BALANCE, BUDGETARY BASIS | \$ | 171,062 |
| Net Increase in Receivables | | 8,118 |
| Net Decrease in Liabilities | | <u>399</u> |
| NET CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS | \$ | <u>179,579</u> |

OTHER INFORMATION

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Campus Community School.
2. Two reportable conditions were identified during the audit of the basic financial statements of Campus Community School.
3. No instances of noncompliance material to the financial statements of Campus Community School were disclosed during the audit.

FINDINGS – COMPLIANCE REPORTING

None.

FINDINGS – FINANCIAL REPORTING

None.

STATUS OF PRIOR AUDIT FINDINGS

Finding 2005-01

Campus Community School's Business Manager prepares and approves manual documents and enters and approves the documents in DFMS. The Business Manager also completes the monthly reconciliations.

The School's Business Manager signs PHRST's Payroll Authorization Form as the Human Resource Supervisor, the Benefits Administration Supervisor, and the Payroll Supervisor. In addition, two employees with PHRST access have the ability to access and revise their payroll data.

The State of Delaware *Budget and Accounting Manual* states, "One of the basic and most successful methods of achieving internal control is through the segregation of duties. The segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions. This method of control increases the likelihood that if one person makes an error, another will discover it. Segregation of duties also reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties."

A mitigating control for the lack of segregation of duties would be a management review; however the School did not provide evidence of that review. As a result, there is an increase in the risk of misappropriation of assets due to the lack of segregation of duties.

CHARTER SCHOOL, INC. D/B/A
CAMPUS COMMUNITY SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Recommendation

The School Administrator or Deputy School Administrator provide the second level of approval of documents in DFMS and/or review the monthly reconciliations of DFMS activity and sign the reconciliations to denote his review and approval.

The School implement PHRST sign-on controls at the School level that limit employees' ability to access and revise their payroll data. The School assign more than one individual the responsibility of overseeing the Human Resources, Benefits, and Payroll areas.

Auditee Response

We are currently restructuring our office and administrative duties. The intent is to disburse and segregate DFMS and PHRST duties and responsibilities. Our employee's ability to revise and update their own payroll record is a PHRST system issue that we have no control of. It is our understanding that PHRST and the Auditors Office are aware of this concern.

Current Status

Not implemented.

Finding 2005-02

Campus Community School's Business Manager makes monthly principal and interest payments on the letter of credit with Wachovia Bank, National Association. The School does not receive account statements from Wachovia; hence, reconciliations are not performed and the School is not aware of the current balance.

According to the State of Delaware *Budget and Accounting Manual*, "The following specific control objectives are widely accepted as elements of good control and should be used by management and financial manager:

Authorization - ensuring that all transactions are approved by management

Validation - ensuring that recorded transactions represent real transactions."

Reconciliations are a method to ensure accuracy and consistency between recorded amounts and amounts reported by third parties. Reconciliations assist in identifying (1) the inclusion of improper data in the accounting records and (2) data improperly omitted from the accounting records.

Recommendation

Campus Community School officials obtain monthly account statements from Wachovia and reconcile activity to the amounts recorded in DFMS.

Campus Community School officials summarize fiscal year activity for financial reporting purposes.

Auditee Response

At the final closing of our loan, we received a payment schedule that lists monthly principal and interest payments, along with monthly balances through the term of our loan. All payments have followed that schedule. We will contact Wachovia to inquire about a monthly statement.

Current Status

Not implemented.